

Don't dismiss the unusual when it comes to picking deals

08 November 2013 | By Iris Dorbian, Contributor

Quirky sounding or unusual companies that seem to deviate from the norm often times find backing—and some pay off big, too

When John Frankel, founding partner at the New York-based venture firm ff Venture Capital, first heard about UniKey, developer of the Kevo app that lets smartphone users unlock doors, he was shocked, even incredulous that an LP would suggest he consider it for an investment.

“I told him, ‘Are you kidding? It was on ‘Shark Tank,’” he said, referring to the popular reality TV show in which aspiring entrepreneurs pitch their often peculiar products or wares to a panel of potential investors, including outspoken Dallas Mavericks owner Mark Cuban.

Phil Dumas, CEO and founder of UniKey, had appeared on an episode of the ABC program to promote his app. Dumas had engaged the interest of two of the five investors on the show’s panel, including Cuban and billionaire magnate Kevin O’Leary. But the deal fell through after the show taped in mid-2012.

Still, the LP insisted to Frankel that he check out UniKey. Obliging him, out of respect, Frankel watched on Tivo the “Shark Tank” episode that featured Dumas.

Soon skepticism gave way to admiration. He agreed with his LP.

“I saw that it was a great company,” said Frankel, who prior to founding ff Venture Capital worked at Goldman Sachs for more than two decades.

After getting in touch with Dumas, Frankel was confident he was making the right decision to invest.

“I really felt from the get-go that the strategy that we and UniKey’s CEO had were aligned,” he said.

Since then, Frankel has invested in UniKey twice. Although he won’t disclose the financial details, he admits that as a result of the transaction, he is an equity stakeholder. He also sits on the company’s board.

The product, which is distributed by Kwikset, the Black & Decker-owned lock maker, is currently available for pre-orders online, including on Amazon.com, Home Depot and Lowe’s. It’s expected to hit retail shelves soon.

“I think this can be an absolutely home run consumer product as we go into the fourth quarter and into the holiday season,” Frankel said. “It will sell itself.”

Although VC funding of an offbeat company that was found on a TV show,

such as UniKey, may seem like an aberration when compared to the multitude of software and Internet startups that raise cash from traditional VC methods, recent evidence shows that may not be the case.

Perhaps Unikey and similar investments are not one-offs, but part of an intriguing industry trend. As for why, it's not just about being contrarian. The potential for a huge exit helps.

The VCs who funded MakerBot, for instance, successfully placed a bet that 3D printing would take off. Many other investors and some critics couldn't understand why the investors would back a 3D printing company.

However, the Brooklyn-based company, which raised only \$10 million in a Series A round from Foundry Group, True Ventures and others, had the last laugh as Stratasys bought MakerBot in June in a deal valued at more than \$600 million.

At the time of its acquisition, MakerBot had sold more than 22,000 printing units. Not bad for an investment that many thought was unusual two years ago, but today, 3D printers and 3D technologies are their own sector, attracting millions in early-stage dollars.

Sometimes, it boils down to whether the VC feels there's an actual market for the product or company.

For Clayton Lewis, a partner at Maveron, the venture firm co-founded by Starbucks CEO Howard Schultz, that was certainly the case with his decision to invest in the San Francisco-based Lively, creator of an app that uses sensor technology to communicate to adults what their aging parents are doing in their homes.

But then he had a special bias—he originated the idea after noting the dearth of innovative devices in the aging homebound population since the 1974 launch of Lifeline Systems, the emergency response alert. (Royal Philips Electronics acquired Lifeline for \$750 million in 2006).

Lewis saw not only very little competition in this sector, but a need to be filled. He contacted Iggy Fanlo, who sat on the board of Swaylo, a Maveron-backed company acquired by Facebook a year ago, for his feedback. Fanlo, the former CEO of AdBrite, registered a strongly visceral reaction.

"He was immediately passionate about it," Lewis said. "He was passionate because of his own life and his parents and also passionate because of what he saw as the opportunity."

Also on board with the idea was Maveron's entrepreneur-in-residence David Glickman.

Following a series of focus groups with seniors, a beta version of Lively (which was initially seeded by Maveron for \$250,000 with the firm providing an additional \$1.65 million to its seed round) was quickly developed and tested. In late September 2013, the app went to market and began shipping orders. Currently, it is only selling online.

Prior to its recent launch, Lively raised \$4.8 million in Series A funding. Cambia Health Solutions, a provider of health care solutions in the Pacific Northwest, led the round with participation from Maveron.

Lewis, who holds an undisclosed equity stake in Lively, said he hopes for eventual widespread penetration in the consumer market. But he's also realistic, noting that if the startup falls flat, it won't be a devastating financial loss considering how little capital has been invested.

Another recent funding that might make jaded observers furrow their brows in confusion or in this instance, grab a bottle of moonshine and start chugging away, is Centerview Capital's funding in November of Ole Smoky Tennessee Moonshine, a distiller of premium moonshine in Gatlinburg, Tenn. Although the financial terms have not been disclosed, the investment is described as "significant" in the press release, which also states that the capital will be used for "expansion."

Judging by the statement in the prepared release that Centerview Capital co-founders Jim Kilts and David Hooper made about the funding, the firm clearly sees a market for their dollars.

Says Kilts and Hooper: "Ole Smoky's products have broad adult appeal and benefit from important long-term spirits trends, such as increased consumer interest in craft distilling and flavored spirits, and also from a strong interest in products with deep American heritage."

Mahendra Ramsinghani, author of "The Business of Venture Capital," published in November 2011, said the low startup costs is a key reason why a significant number of VCs and seed-stage investors are funding numerous and unconventional startups or products.

"Making an app or building products is relatively inexpensive nowadays," said Ramsinghani, who's currently the managing director of Invest Detroit's First Step Fund, which focuses on startups and early-stage companies.

Babak Hafezi, CEO of the Mclean, Va.-based Hafezi Capital, a consulting firm that helps raise capital for client companies, has a similar refrain as to why certain investors will fund startups that aren't part of the normal trend of investing.

"VCs will invest if they believe there's a market for it," he said.

In Hafezi's case, he can point to an example that illustrates his point. Recently, he played a role in securing \$245,000 from three angel investors for Woogey, a Boston-based app that has developed an algorithm that can turn a name into a ringtone.

When asked why VCs or angel investors would back such unorthodox or whimsical products, Hafezi said: "They believe they can take this product and sell it through specific channels and increase their valuation and exit at some point."

Ramsinghani echoed Hafezi's view. ["Every investor] has a concept of value unique to their own background and experiences that makes them believe that there's something going on here that others might look at and scratch their heads."

In addition, Ramsinghani predicted more VC or angel funding of unusual products or startups in the years to come.

“You will see more and more of these companies getting attention or capital,” he said. “It’s not necessary to say anyone of these will be successful. It’s a gamble like anything else.”

Iris Dorian is a New York-based contributor. She can be reached at irisdorian@gmail.com.

VC-backed startups out of the norm—how will they do?

Company: Crave

Description: San Francisco-based luxury sex toy startup

Total funding: \$4.8 million

Investors: Chaotic Ventures, Minnie Ingersoll, Rob Nail and Diego Canoso.

...

Company: GirlsAskGuys.com

Description: An online community site based in St. Louis that targets men and women ages 18 to 30. The chief aim of the site is for young people to ask each other for dating tips and what they like about the opposite gender. Sister site KizlarSoruyor.com is based in Turkey

Total funding: \$1 million in seed funding

Investors: O’Brien Capital (firm provided \$800,000 in a recent round)

...

Company: InteraXon

Description: Toronto-based maker of brainwave-controlled technology and apps.

Total funding: \$10.2 million, including a \$6 million Series A and \$51,000 in seed-stage funding.

Investors: Horizons Ventures, OMERS Ventures, A-Grade Investments, ff Venture Capital, Felicis Ventures and Ashton Kutcher

...

Company: Lively Inc.

Description: Developer of a sensor technology product that helps older adults stay independent in their homes while alerting relatives when something is amiss. The company is headquartered in San Francisco.

Total funding: \$7.3 million (\$4.8 million in Series A and \$2.5 million in

seed funding).

Investors: Maveron and Cambia Health Solutions

Company: UniKey

Description: Winter Park, Fla.-based developer of Kevo app that unlocks doors.

Total funding: \$2.3 million, including a \$1.25 million Series A.

Investors: ff Venture Capital

...

Company: Ubooly Inc.

Description: Uses a cuddly plush to develop a toy application for mobile phones.

Total funding: \$2.5 million

Investors: 500 Startups, SoftTech VC and Translink Capital Partners

...

Company: Spire Inc.

Description: Develops a wearable sensor that tracks both physical and psychological fitness to lower stress and enhance productivity.

Total funding: n/a

Investors: Rock Health

...

Company: Ole Smoky Tennessee Moonshine

Description: Gatlinburg, Tenn.-based distiller of premium moonshine in the U.S.

Total funding: Undisclosed

Investors: Centerview Capital